

Message Text

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PAGE 01 LIMA 05290 01 OF 03 161306Z

ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 CEA-01 STR-07 AGRE-00
DOE-15 SOE-02 DOEE-00 /120 W
-----097885 161452Z /45

P 152223Z JUN 78

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 501

LIMITED OFFICIAL USE SECTION 1 OF 3 LIMA 5290

E.O. 11652: N/A

TAGS: EFIN, EGEN, PE

SUBJECT: PERU: FINANCE MINISTER'S JUNE 14 TV SPEECH

REF: LIMA 5099

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1. SUMMARY: IN FIRST NATIONALLY-TELEVISED SPEECH SINCE TAKING
OFFICE ON MAY 15, FINANCE MINISTER SILVA RUETE ON EVENING
JUNE 14 FRANKLY DESCRIBED CURRENT ECONOMIC AND FINANCIAL CRISIS,
ANNOUNCED ACTIONS WHICH GOV IS TAKING TO CONFRONT SITUATION,
AND CALLED ON ALL PERUVIANS TO JOIN A "NATIONAL CRUSADE" FOR
ECONOMIC RECOVERY. FINMIN IDENTIFIED AS MOST SERIOUS PROBLEMS
STAGNANT PRODUCTION, UNEMPLOYMENT AND UNDEREMPLOYMENT,
INCREASE IN COST OF LIVING AND DECLINE IN REAL INCOME, AND
ACUTE SCARCITY OF FOREIGN EXCHANGE, WHICH IS CONSTRICTING
IMPORTS OF ESSENTIAL CAPITAL AND INTERMEDIATE GOODS. FINMIN
DENIED THAT PROBLEMS ARE DUE TO STRUCTURAL CHANGES IMPOSED
BY REVOLUTIONARY MILITARY GOVERNMENT IN 1968 - THESE
REFORMS REPRESENT ACHIEVEMENTS OF THE REVOLUTION AND ALL
PERUVIANS SHOULD UNITE TO DEFEND THEM. CRISIS IS THE RESULT
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PAGE 02 LIMA 05290 01 OF 03 161306Z

OF PROBLEMS AND ERRORS IN MANAGEMENT OF THE ECONOMY WHICH
HAVE ACCUMULATED IN RECENT YEARS, WHICH WE WENT INTO IN
SOME DETAIL. FINMIN MADE FULL DISCLOSURE OF PERU'S TOTAL
FOREIGN DEBT, PUBLIC AND PRIVATE (\$8.2 BILLION), AND
NOTED THAT 1979 DEBT SERVICE RATIO WOULD BE WELL OVER
50 PERCENT IF NECESSARY RESCHEDULING NOT UNDERTAKEN. HE
CALLED FOR CREATION OF AN INTER-AMERICAN MONETARY FUND

TO HELP SOLVE BALANCE OF PAYMENTS DIFFICULTIES OF LA COUNTRIES. HE NOTED THAT AVAILABLE FOREIGN EXCHANGE WHEN NEW ECONOMIC TEAM TOOK OVER WAS NEARLY EXHAUSTED, AND DESCRIBED EARLY AND SUCCESSFUL EFFORTS TO RAISE \$86 MILLION FROM CENTRAL BANK SWAPS. HE STATED THAT CURRENT NEGOTIATIONS WITH COMMERICAL BANKS FOR \$185 MILLION ROLLOVER ARE ON TRACK, AND THAT NEGOTIATIONS FOR NEW (AND THIS TIME REALISTIC) STANDBY AGREEMENT WITH IMF WERE COMMENCING SHORTLY. MINISTER CALLED FOR FURTHER PRUNING OF PUBLIC SECTOR EXPENDITURES, TIGHTER TAX ADMINISTRATION AND BETTER ENFORCEMENT OF CUSTOMS LAWS. HE CITED NEED TO STIMULATE GNP GROWTH INTER ALIA BY STRENGTHENING EXPORT PROMOTION, INCREASING ACTIVITIES OF STATE DEVELOPMENT BANKS, CREATING A FUND FOR AGRICULTURAL DEVELOPMENT, EXECUTING MORE LABOR-INTENSIVE PROJECTS, PROMOTING MINING SECTOR, AND BROADENING THE EXPLORATION AND EXPLOITATION OF PETROLEUM RESOURCES. SPEECH WAS SEEN HERE AS FRANK AND REALISTIC. THOUGH IT BEGAN WITH AN APOLOGIA TO THE REVOLUTIONARY MILITARY GOVERNMENT, IT ADMITTED THAT ERRORS HAD BEEN MADE WHICH MUST BE CORRECTED. IT DID NOT SUGAR-COAT THE CURRENT ECONOMIC CRISIS; INDEED, ONLY FOUR DAYS BEFORE THE ELECTION THE FINANCE MINISTER WAS PROMISING TWO TO THREE YEARS OF AUSTERITY BEFORE PERU COULD SOLVE ITS ECONOMIC PROBLEMS. BECAUSE OF ITS STRAIGHTFORWARD APPROACH SPEECH WAS GENERALLY WELL RECEIVED BY BUSINESS AND LIMITED OFFICIAL USE

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PAGE 03 LIMA 05290 01 OF 03 161306Z

FINANCIAL COMMUNITY HERE. END SUMMARY.
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2. FOR THE PRINCIPAL ASPECTS OF THE PRESENT ECONOMIC PROBLEM. THE MINISTER STATED, QUOTE ACCORDING TO OUR UNDERSTANDING THERE ARE FOUR ASPECTS TO THE GRAVE ECONOMIC AND FINANCIAL PROBLEM WHICH HAVE A DRAMATIC SOCIAL IMPACT. FIRST, THE STAGNATION AND EVEN REDUCTION IN LEVELS OF PRODUCTION, WHICH HAS SIGNIFIED THAT OUTPUT PER CAPITA IN THE PRESENT YEAR IS LESS THAN THE LEVEL REACHED SIX YEARS AGO. SECOND, THERE IS THE PROBLEM OF UNEMPLOYMENT AND UNDEREMPLOYMENT INTIMATELY RELATED TO THE REDUCTION IN OUTPUT WHICH IS SUCH THAT AT PRESENT LESS THAN HALF THE LABOR FORCE HAS ADEQUATE EMPLOYMENT. THIRD, THE INCREASE IN PRICES AND THE COST OF LIVING HAVE SERIOUSLY DETERIORATED THE PURCHASING POWER OF PEOPLE IN GENERAL. DURING THE PAST YEAR THE RATE OF INFLATION WAS 32 PERCENT AND DURING THE FIRST FIVE MONTHS OF THIS YEAR IT HAS ALREADY REACHED 34 PERCENT. FINALLY THE ACUTE SCARCITY OF FOREIGN EXCHANGE IS PROVOKING A SERIOUS RESTRICTION OF IMPORTS OF FOOD PRODUCTS AND INPUTS ESSENTIAL FOR

SUSTAINING PRODUCTIVE ACTIVITY. UNQUOTE.

3. ERRORS OF ECONOMIC POLICY. THE MINISTER STATED THAT THE ROOT OF THE PROBLEM WAS EXPENDITURE OR DEMAND IN EXCESS OF DOMESTIC PRODUCTION. HE NOTED THAT THROUGH SEVERAL YEARS CONSUMPTION AND INVESTMENT EXCEEDED OUTPUT AND THAT ALL ECONOMIC ACTIVITY INVOLVES MAINTENANCE OF AN ADEQUATE PROPORTION BETWEEN CONSUMPTION AND INVESTMENT. EXCESSIVE DEMAND WAS TRANSLATED INTO AN EXAGGERATED GROWTH OF INPUTS AND QUOTE WE HAVE BECOME INDEBTED ABOVE ALL REASON AND VERY MUCH IN EXCESS OF OUR POSSIBILITIES OF PAYMENT UNLESS WE SUBMIT THE COUNTRY TO A PROCESS OF DEPRESSION AND REPRESSION THAT IS INADMISSIBLE. UNQUOTE. THE MINISTER CATEGORICALLY LIMITED OFFICIAL USE

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PAGE 04 LIMA 05290 01 OF 03 161306Z

DENIED THAT THE REVOLUTIONARY GOVERNMENT'S STRUCTURAL TRANSFORMATION HAD CAUSED THE ECONOMIC PROBLEMS OF PERU.

4. CAUSAL FACTORS EXPLAINING PROBLEMS OF EXTERNAL SECTOR. THE MINISTER LISTED SOME OF THE CAUSAL FACTORS WHICH BROUGHT ABOUT THE DIFFICULT SITUATION OF PERU'S EXTERNAL SECTOR. QUOTE:

A. DURING AN EXCESSIVELY LONG PERIOD OF TIME, AN EXCHANGE RATE WAS MAINTAINED THAT DID NOT REFLECT THE REAL VALUE OF OUR MONEY; CHEAP FOREIGN EXCHANGE SERVED TO INCREASE IMPORTS, FAVORING FOREIGN PRODUCTS WHILE AT THE SAME TIME DISCOURAGING EXPORT ACTIVITIES, INJURING OUR PRODUCERS WHO DID NOT RECEIVE THE SOLES NECESSARY TO COMPENSATE THEM SUFFICIENTLY AND ADEQUATELY FOR THEIR PRODUCTIVE LABOR. FAR FROM AFFIRMING OUR ECONOMIC INDEPENDENCE, THE FIXED EXCHANGE RATE TIED US MORE AND MORE TO THE EXTERIOR.

B. THE STRUCTURE OF INDUSTRIAL PRODUCTION THAT WE HAVE ESTABLISHED IS HIGHLY DEPENDENT ON IMPORTED RAW MATERIAL AND EQUIPMENT; THIS IMPLIES THAT AS OUR INDUSTRY GROWS WE ARE OBLIGATED TO INCREASE IMPORTS; AND WHEN IMPORTS MUST BE RESTRICTED DUE TO CRISIS, THE INDUSTRIAL SECTOR IS NOT SUPPLIED WITH IMPORTS AND HAS TO REDUCE ITS OUTPUT, ENTERING INTO RECESSION.

C. LARGE INVESTMENT PROJECTS EXECUTED BY THE PUBLIC SECTOR HAVE REQUIRED A LARGE CONCENTRATION OF IMPORTS; THE DISLOCATION OF EXECUTION OF SOME OF THESE AND THE SLOW MATURATION PROJECTED FOR OTHERS SIGNIFIES THAT THEIR PRODUCTION HAS NOT OCCURRED WITH THE NECESSARY TIMELINESS.

D. MILITARY ACQUISITIONS FOR NATIONAL DEFENSE HAVE EXCEEDED THE TRADITIONAL LEVELS; THIS IS EXPLAINED BY THE PECULIAR GEO-POLITICAL SITUATION OF OUR COUNTRY.

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PAGE 05 LIMA 05290 01 OF 03 161306Z

BUT, ITS QUANTITY WAS INCOMPATIBLE WITH THE INVESTMENT
EFFORT AND THE CONSUMPTION WHICH WERE UNDERTAKEN
SIMULTANEOUSLY.

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PAGE 01 LIMA 05290 02 OF 03 161351Z
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P 152223Z JUN 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 502

LIMITED OFFICIAL USE SECTION 2 OF 3 LIMA 5290

E. THE HIGH DOMESTIC CONSUMPTION REGISTERED IN THE
PAST HAS BEEN SUPPLIED IN AN EXAGGERATED PROPORTION BY
FOODSTUFFS, PETROLEUM AND OTHER PEODUCTS FROM ABROAD;
THE SUBSIDY FOR THESE INCREASED THE LEVEL OF CONSUMPTION
EVEN MORE FAVORING THE FOREIGN PRODUCER AND SICOURAGING
DOMESTIC PRODUCTION OF THESE PRODUCTS. THIS WASTE WAS
AND IS STILL A CHARACTERISTIC OF OUR ECONOMY AND EXISTS
ABSURDLY AND ANTI-SOCIALLY ALONGSIDE WIDESPREAD PROVERTY.

F. AT THE SAME TIME, THE CONDITIONS OF THE
WORLD ECONOMY HAVE INCREASED THE PRICES OF OUR IMPORTS,
PARTICULARLY PETROLEUM, FOODSTUFFS, AND INDUSTRIAL INPUTS,
AND HAVE NEGATIVELY AFFECTED THE INCOME OF OUR EXPORTS.
THESE EXTERNAL CONDITIONS, PROLONGED AND SHARPLY UNFAVORABLE,
SINCE 1974 HAVE PRODUCED AN ACCUMULATED LOSS OF MORE THAN
\$1 BILLION FOR PERU AS A CONSEQUENCE OF THE DETERIORATION
OF OUR TERMS OF TRADE.

G. THE SPECULATIVE BEHAVIOR OF MANY INVESTORS WHO
ACQUIRED IMPORTED CAPITAL GOODS OR ACCUMULATED INVEN-
TORIES OF RAW MATERIALS WITH A VIEW TOWARD OBTAINING

FINANCIAL PROFITS (THAT AT TIMES COULD HAVE INCLUDED THE OVER-INVOICING OF IMPORTS AND THE FLIGHT OF CAPITAL). UNQUOTE.

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PAGE 02 LIMA 05290 02 OF 03 161351Z

5. FINMIN ADDED THAT ALL OF THIS WAS AGGRAVATED BY THE STRUCTURE OF EXTERNAL PUBLIC DEBT WHICH CONSTITUTES THE FACTOR OF LARGEST WEIGHT FOR THE NEXT FEW YEAR. THE MAGNITUDE OF PUBLIC DEBT SERVICE IN 1978 AND FOR THE NEXT TWO YEARS EXCEEDS BY A GOOD MARGIN 50 PERCENT OF THE PROJECTED INCOME FROM PERU'S EXPORTS OF GOODS AND SERVICES.

6. MAGNITUDE OF PERU'S EXTERNAL DEBT. IN REGARD TO EXTERNAL DEBT, THE MINISTER STATED QUOTE IT SHOULD BE NOTED THAT THE EXTERNAL PUBLIC DEBT OF MEDIUM AND LONG TERM, I.E. CONTRACTED OF MORE THAN ONE YEAR TERM, IS \$4,814 MILLION INCLUDING BALANCE-OF-PAYMENT SUPPORT LOANS, IF WE ADD TO THAT THE DEBT CONTRACTED BY THE PRIVATE SECTOR, THE MEDIUM AND LONG TERM DEBT OF PERU AMOUNTS TO \$6,140 MILLION. IT SHOULD BE NOTED THAT THE PROBLEM OF THIS DEBT DOES NOT DERIVE AS MUCH FROM ITS MAGNITUDE, WHICH IS HIGH, AS FROM THE STRUCTURE OF PAYMENTS WHICH IS CONCENTRATED EXAGGERATEDLY IN A RELATIVELY SHORT PERIOD. TO THIS DEBT, ONE MUST ADD THE PRESENCE OF PRIVATE AND PUBLIC SHORT TERM DEBT WHICH AMOUNTS TO \$2,130 MILLION. EVIDENTLY, AS THERE IS NO HOPE OF A SOLUTION TO THIS PROBLEM IN A SHORT PERIOD OF TIME, WE ARE OBLIGATED TO RESTRICT EXTERNAL PAYMENTS AT LEAST FOR THE NEXT THREE YEARS. THIS SIGNIFIES THAT THE PRESENT SITUATION IS NOT TRANSITORY UNQUOTE.

7. ACTIVITIES TO OVERCOME THE FOREIGN EXCHANGE CRISIS. THE MINISTER RELATED GOP ACTIONS TO OVERCOME THE FOREIGN EXCHANGE CRISIS: QUOTE. IN EFFECT, ON THE 15TH OF MAY FOREIGN EXCHANGE HOLDINGS OF THE CENTRAL BANK WERE ALMOST EXHAUSTED WHILE PUBLIC DEBT PAYMENTS OF IMPORTED MAGNITUDE WERE NEARING. GIVEN THAT PERU PROJECTED AND CONTINUES TO PROJECT LIMITED OFFICIAL USE

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PAGE 03 LIMA 05290 02 OF 03 161351Z

COMPLIANCE WITH ALL ITS OBLIGATIONS, IF NEW RESOURCES HAD NOT BEEN OBTAINED, THE CENTRAL BANK WOULD HAVE BEEN FORCED TO THE NECESSITY OF RETAINING A HIGHER PERCENTAGE OF FOREIGN EXCHANGE EARNINGS, WITH GRAVE DAMAGE TO PRODUCTIVE ACTIVITIES, ALREADY HIGHLY DETERIORATED BY THE DIFFICULTIES OF IMPORTING AND PAYING FOREIGN

EXCHANGE. IN ADDITION, FACING THIS SITUATION OF EXTREME WEAKNESS, SOME UNACCEPTABLE PRESURES WERE NOTED. IN THIS SENSE, I AM HAPPY TO INFORM THAT WE ACTED WITH FIRMNESS AND DECISION. ALL TIES BETWEEN POSSIBLE FINANCIAL AGREEMENTS AND DISPOSITIONS OF A LEGAL AND ECONOMIC CHARACTER NOT RELATED TO SUCH PAYMENTS WERE REJECTED. IN AN UNUSUAL AND UNPRECEDENTED ACTION, TRADITIONAL PROCEDURES AMONG GOVERNMENT WERE BROKEN AND WITH THE DISPATCH NEEDED BY THE CIRCUMSTANCES AN EMERGENCY ACTION WAS UNDERTAKEN WHICH PERMITTED THE RAISING OF IN A FEW DAYS, I WOULD SAY HOURS, CREDITS AMOUNTING TO \$86 MILLION IN A GESTURE OF SOLIDARITY FROM ARGENTINA, BRAZIL, SPAIN, MEXICO, THE DOMINICAN REPUBLIC, AND VENEZUELA, TO WHICH WERE PROFOUNDLY GRATEFUL FOR ITS DEEP POLITICAL AND ECONOMIC SIGNIFICANCE. PARALLEL WITH SUCH EXTRAORDINARY ASSISTANCE, AND HAVING GUARANTEED CONTINUATION OF EXTERNAL PAYMENTS OF THE PUBLIC SECTOR WITHOUT AFFECTING ADDITIONALLY THE PRODUCTIVE SECTOR, THE RENEGOTIATION OF THE AMORTIZATION OF THE PUBLIC DEBT TO FOREIGNBANKS FOR THE SECOND HALF OF THIS YEAR WAS INITIATED FOR AN MAOUNT OF \$185 MILLION. AT PRESENT WE HAVE A POSITIVE REPLY FROM THESE BANKS WITHOUT ANY CONDITION AND THERE REMAINS ONLY THE FORMAL DOCUMENTATION. THUS, THE PAYMENT OF EXTERNAL DEBT IS ASSURED TO THE END OF THE YEAR GIVING TRANQUILITY TO THE DOMESTIC EXCHANGE MARKET AND INDISPENSABLE TIME FOR PROCEEDING TO THE ADOPTION OF MEASURES OF GREATER SCOPE. WITH THE TRANQUILITY OF RELEIF THUS OBTAINED, WE HAVE PROCEEDED TO REALIZE FINANCIAL OPERATIONS FOR \$30 MILLION WITH DOMESTIC LIMITED OFFICIAL USE

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PAGE 04 LIMA 05290 02 OF 03 161351Z

BANKS, WHOSE PRODUCT IS DESTINED TO ATTEND TO OVERDUE OBLIGATIONS OF THE PRIVATE SECTOR. CONTINUING THIS PACE OF SALE, AS IS NOW FORESEEN, IT IS EXPECTED THAT THE MARKET WILL BECOME CURRENT, AND THE CENTRAL BANK WILL BE IN A POSITION TO INTERVENE ACTIVELY IN THE FOREIGN EXCHANGE MARKET FOR WHICH WE HAVE NOW INITIATED THE FIRST ACTIONS. WHEN THIS IS OBTAINED, WHICH WE HOPE WILL BE IN A SHORT PERIOD OF TIME, AND HAVING ELIMINATED THE ABNORMAL AND SPECULATIVE CAUSES WHICH STILL EXIST, WE WILL GUARANTEE SELECTIVELY TO THE PRODUCTIVE SECTOR, NORMALITY IN THE OPENING OF LETTERS OF CREDIT, PROVIDED A RIGOROUS PRIORITIZATION IS FOLLOWED. REGAINING CONTROL OF THE MARKET, RESPECTING THE RULES OF THE GAME IN ORDER NOT TO FORCE IT (THE MARKET) UNNECESSARILY, IT IS NECESSARY TO ACT IN THREE AREAS TO REESTABLISH ITS NORMAL FUNCTIONING: FIRST IT IS URGENT TO VIGOROUSLY INCREASE SAVINGS IN DOMESTIC AND FOREIGN MONEY, REGULATING RATES OF INTEREST AND POTECTING ITS INTERMEDIATION

THROUGH THE ESTABLISHED FINANCIAL CHANNELS IN ORDER TO ASSURE THAT SUCH SAVING IS USED PRODUCTIVELY. SECOND, THE POLICY OF SELECTIVE CREDIT SHOULD BE ACCENTUATED SINCE THIS CONTINUES AS RELATIVELY TOO WEAK TO STOP THE INFLATION. IN THIS REGARD, THE CENTRAL BANK HAS AUTHORIZED AN INCREASE IN FINANCING OF NONTRAITIONAL EXPORTS, HOUSING AND A DECENTRALIZED CREDIT FUND IN FAVOR OF THE PROVINCES. WORK IS NOW UNDER WAY TO INCREASE MINING AND AGRICULTURAL CREDIT. ALL THIS WITHIN A NONINFLATIONARY POLICY, SINCE SUCH NEW SOURCES OF CREDIT WILL BE COMPENSATED WITH CUTS IN PUBLIC SECTOR FINANCING IN ITS NONPRODUCTIVE AREAS. FINALLY, IT IS INDISPENSABLE TO ELIMINATE AS MUCH AS POSSIBLE THE RESTRICTIONS WHICH WE FACE IN OUR CAPACITY FOR EXTERNAL PAYMENTS AND CREDIT. UNQUOTE.
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PAGE 05 LIMA 05290 02 OF 03 161351Z

8. UPCOMING IMF NEGOTIATIONS. THE MINISTER STATED QUOTE WITHIN THIS CONTEXT, THE GOVERNMENT HAS ASKED THE IMF TO COMPLETELY MODIFY THE STANDBY AGREEMENT SIGNED LAST NOVEMEBER WHICH CONTAINED IMPOSSIBLE AND ABSURD

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PAGE 01 LIMA 05290 03 OF 03 161410Z
ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
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P 152223Z JUN 78
FM AMEMBASSY LIMA
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LIMITED OFFICIAL USE SECTION 3 OF 3 LIMA 5290

COMPLIANCE TARGET. BY SPECIAL CHARGE OF THE PRESIDENT I HAVE PERSONALLY TRANSMITTED THIS UNDERTAKING WITH ALL THE FIRMNESS OF WHICH I AM ABLE TO THE AUTHORITIES OF THIS INTERNATIONAL ORGANIZATION. IN THIS NEGOTIATION WE WILL DEFEND WITH MAXIMUM ENERGY OUR LEGITIMATE AND INALIENABLE NATIONAL ECONOMIC INTERESTS AND, ADDITIONALLY, WE WILL TAKE CARE THAT THIS INSTITUTION DOES NOT STEP

OUT OF BOUNDS OF THE STRICT FINANCIAL GUIDELINES WHICH
ARE ITS JURISDICTION. I TAKE THIS OPPORTUNITY TO ANNOUNCE
THE PROPOSAL OF THE REVOLUTIONARY GOVERNMENT TO INITIATE
SHORTLY NEGOTIATIONS WITH THE OTHER COUNTRIES OF OUR
CONTINENT THE FORMATION OF A LATIN AMERICAN MONETARY
INSTITUTION, WHICH WOULD CONSTITUTE AND EFFICIENT AND
AUTONOMOUS INSTRUMENT TO RESOLVE OUR FREQUENT BALANCE
OF PAYMENT PROBLEMS AND EXTERNAL FINANCIAL DESEQUILIBRIA.
ONCE OUR BASIC FINANCIAL PLAN IS DEFINED AND OUR
NEGOTIATING CAPACITY IS RESTORED, WE SHALL INITIATE
NEGOTIATIONS TO RESTRUCTURE OUR FOREIGN DEBT THAT, AS
YOU CAN APPRECIATE TOMORROW FROM THE STATISTICAL
INFORMATION GIVEN TO THE PRESS, WILL DEMAND AN
AMORTIZATION OF CAPITAL PLUS INTEREST FOR 1979 IN
EXCESS OF 60 PERCENT OF FOREIGN EXCHANGE INCOME. UNQUOTE.
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PAGE 02 LIMA 05290 03 OF 03 161410Z

9. THE PUBLIC SECTOR REQUIRES PRUNING. THE MINISTER
STATED QUOTE IN ITS TOTALITY THE LEVEL OF (PUBLIC)
EXPENDITURE EXCEEDED BY A WIDE MARGIN THE POSSIBILITIES OF
FINANCING THE PUBLIC SECTOR, WHILE THE EFFICIENCY OF
TAX ADMINISTRATION DECLINED IN A DRAMATIC MANNER. TO
FACE THE GROWING FINANCE PROBLEM THE EASY PATH OF MONEY
CREATION AND DOMESTIC AND EXTERNAL DEBT WAS FOLLOWED.
AT PRESENT THERE ARE TOO MANY ENTITIES AND SERVICES
WITHIN THE PUBLIC ADMINISTRATION THAT FOR LACK OF FUNDS
CANNOT OPERATE EFFICIENTLY. THE SCARCE FISCAL RESOURCES
ARE FULLY UTILIZED; EXPENDITURE IS RIGID AND NOT SUBJECT
TO PRIORITY; AND THE COMPLICATED ADMINISTRATIVE PROCESS
IMPEDES PRODUCTIVE ACTIVITY. THE FINANCIAL
DIFFICULTIES OF THE PAST YEARS AND THE SUCCESSIVELY
IMPLANTED AUSTERITY MEASURES WERE APPLIED WITHOUT ORDER
OR DESIGN ORIENTED TO CORRECT THE BASIC PROBLEM AND
HAVE PARADOXICALLY AGGRAVATED THE SITUATION. MANY OF
THE PUBLIC DEPENDENCIES OPERATE WITH SUCH SCARCE FUNDING
THAT THEY CANNOT FULFILL THE OBJECTIVES FOR WHICH THEY WERE
CREATED AND MAINTAINING THEMSELVES PRACTICALLY INACTIVE, WITH
THE CONSEQUENT LACK OF MOTIVATION AND GROWING
DEMORALIZATION OF THEIR WORKERS. MOREOVER, THE WAGE
POLITICS LINKED TO AUSTERITY HAVE PROVOKED A GENERALIZED
DETERIORATION IN THE QUALITY OF ADMINISTRATIVE CADRES
ON THE OTHER HAND, THERE HAS NOT BEEN A SUFFICIENT UNDER-
STANDING OF THE DIFFERENCE BETWEEN PRODUCTIVE AND BUREAU-
CRATIC ACTIVITIES. MANY OF THE AUSTERITY MEASURES HAVE
BEEN APPLIED EQUALLY TO PUBLIC ENTERPRISES AS TO THE REST OF THE
PUBLIC ADMINISTRATION. THAT THE EXPENDITURES OF THE
FORMER FORM PART OF THE PRODUCTIVE PROCESS AND THE
RATIONALITY IN THIS CANNOT BE OBTAINED BY CUTTING EX-
PENDITURES SHOULD NOT BE FORGOTTEN IF THIS GOES
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PAGE 03 LIMA 05290 03 OF 03 161410Z

AGAINST THE PRODUCTIVITY OF THE INTERPRISE. THUS, WE HAVE INDUCED ENTERPRISES TO ACT MORE AND MORE AS BUREAUCRATIC APPENDICES OF THE CENTRAL ADMINISTRATION AND HAVE NEGLECTED THE ECONOMIC CHARACTER OF THEIR OPERATIONS. UNQUOTE.

10. AN OUTLINE OF A PRIORITY PROGRAM. THE MINISTER DESCRIBED A PRIORITY PROGRAM CONTAINING NINE ELEMENTS, BUT GAVE RELATIVELY FEW DETAILS. THEY INCLUDE THE FOLLOWING.

- A. STRENGTHENING THE PROMOTION OF EXPORTS;
 - B. MODIFICATION OF THE PRESENT SYSTEM OF STATE DEVELOPMENT BANKS BY MEANS OF FINANCIAL INTERCONNECTION.
 - C. A SIGNIFICANT INCREASE IN THE FINANCIAL RESOURCES OF THE BANCO AGRARIO AND CREATION OF A FUND FOR AGRICULTURAL DEVELOPMENT.
 - D. THE EXECUTIVE OF PROJECTS OF PHYSICAL INFRASTRUCTURE WITH THE INTENSIVE UTILIZATION OF HUMAN RESOURCES.
 - E. ESTABLISHMENT OF INCENTIVES FOR INCREASING WORK SHIFTS IN INDUSTRIES RELATED TO EXPORT.
 - F. PROMOTION OF SMALL AND MEDIUM MINING.
 - G. BROADENING OF THE EXPLORATION AND EXPLOITATION OF PETROLEUM.
 - H. PERMANENT ATTENTION TO WAGE POLICY (HE NOTED THAT QUOTE THE GRAVITY OF THE CIRCUMSTANCE DID NOT PERMIT AN ADVANCING POSITIVE ACTION BECAUSE A GENERALIZED INCREASE WOULD ONLY HAVE UNQUESTIONABLE INFLATIONARY CONSEQUENCES. UNQUOTE)
 - I. THE CREATION OF NEW ENTERPRISES.
- END UNCLASSIFIED/BEGIN LIMITED OFFICIAL USE

1. COMMENTS A) WE FIND NO QUARREL WITH FINMIN'S STRAIGHT-FORWARD DESCRIPTION OF PERU'S PRESENT ECONOMIC SITUATION, I.E. STAGNATION, UNDEREMPLOYMENT, ACCELERATING INFLATION, AND ACUTE SCARCITY OF FOREIGN EXCHANGE. BUT THE IDEA THAT THE REVOLUTIONARY REFORMS DID NO DAMAGE TO THE ECONOMY IS DEBATABLE,

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PAGE 04 LIMA 05290 03 OF 03 161410Z

E.G. PRIVATE INVESTMENT DECLINED PRECISELY BECAUSE OF DISINCENTIVES WHICH REVOLUTIONARY REFORMS TYPIFIED, AND PUBLIC SECTOR EXPENDITURE INCREASED NOTABLY DURING VELASCO YEARS. FINMIN SHOULD BE APPLAUDED FOR HIGHLIGHTING MILITARY HARDWARE PURCHASES AS A CAUSE OF FOREIGN SECTOR FINANCIAL ILLS, AND FOR HIS HONEST REPORTING OF \$8.2 BILLION FOREIGN DEBT. B SILVA RUETE'S FRANK AND REALISTIC APPROACH WAS ALL THE MORE REMARKABLE ONLY FOUR DAYS BEFORE THE NATIONAL ELECTIONS HERE. IN PART BECAUSE OF ITS STRAIGHTFORWARD APPROACH, OUR

FIRST IMPRESSIONS ARE THAT SPEECH WAS GENEALLY WELL RECEIVED
BY BUSINESS AND INANCIAL COMMUNITY.
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2341370
Secure: OPEN
Status: NATIVE
Subject: PERU: FINANCE MINISTER'S JUNE 14 TV SPEECH
TAGS: EFIN, EGEN, PE, (SILVA RUETE, JAVIER)
To: STATE
Type: TE
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